

PS 8561.02 TRANSFER OF INVENTORY WITHIN FPI



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# Program Statement

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OPI: FPI  
NUMBER: 8561.02  
DATE: 12/15/99  
SUBJECT: Transfer of Inventory  
within FPI

1. **PURPOSE AND SCOPE.** To establish policy and procedures to determine at what cost to transfer inventory (raw material or manufactured items) between Federal Prison Industries (FPI) factories.

- Factories within FPI manufacture items and ship them to other factories to be used as component parts in the manufacture of items for sale to other government agencies.
- Items may be manufactured and shipped to other locations to be held in inventory for future sale to other government agencies or to be used as a consumable item.

This directive establishes procedures for assigning value to those items.

2. **PROGRAM OBJECTIVES.** The expected results of this program are:

- a. Costing of inventory transfers between factories will be consistent throughout FPI.
- b. Inter-factory profits will be eliminated from inventory that has been transferred between factories.
- c. Raw Materials and Supplies inventories will be valued at cost within FPI.

3. **DIRECTIVES REFERENCED**

PS 8000.01 UNICOR Corporate Policies and Procedures  
(5/13/81)

PS 8510.01      Factory Costing Procedures (11/21/97)  
PS 8533.02      FPI Inter-Industry Transfers (3/8/99)

4. **STANDARDS REFERENCED.** None

5. **MANUFACTURED COMPONENT PARTS.** A manufactured component is a part of a product FPI manufactures and which is to be installed subsequently as an integral part of a main unit or assembly. These items may be sub-assemblies or they may be end-items that are sold independently.

a. Manufactured component parts, when manufactured for transfer to another FPI location where they will be included in an FPI product or shipped as part of an order, are to be transferred at the approved standard manufacturing cost.

b. The Factory Manager is responsible for establishing an accurate item routing and bill of material for manufactured component parts.

- A costed routing and bill of material are to be submitted to the Product Support Center for approval of the standard cost.
- If the factory does not use the Shop Floor Control (SFC) module of the Management Control System (MCS), the Factory Manager must complete a Unit Cost Estimate (UCE) for approval.

c. The Business Manager is responsible for establishing the Vertical Integration (VI) Price Class in the Item Master within MCS, assigning the appropriate price/cost for the transferred items.

- A VI factory, that is, a factory which manufactures only items to be used as component parts by other factories, does **not** need to establish a special VI price class because the standard manufacturing cost is the normal price which it charges for its products.

d. When shipment against a VI or internal order occurs, the sales value of the VI Price Class is to be recorded as a Transfer Sale (account 5150) and the cost is to be recorded as a Cost of Transfer Sale (account 6520).

6. **MANUFACTURED ITEMS TRANSFERRED FOR RESALE.** A manufactured item transferred for resale is a product manufactured at an FPI location and shipped to another FPI location to be held in

inventory per requirements of an inter-agency agreement in anticipation of future customer orders.

- An example of this type of agreement is the Direct Vendor Delivery (DVD) program, where items are manufactured at one or more FPI locations and then transferred to another location for stocking and future shipment against customer requirements.

a. Manufactured items, when manufactured for transfer to another FPI location where they will be held in inventory until ordered by the customer, are to be transferred at the approved standard manufacturing cost.

b. As in manufactured component parts, the Factory Manager is responsible for establishing an accurate Item Standard Routing and Bill of Material for each item, and for submitting a costed routing and bill of materials to the PSC for approval of the standard manufacturing cost.

- If the factory does not use the MCS' SFC module, then the Factory Manager is to prepare and submit a UCE for approval of the standard cost.

c. The Business Manager is responsible for establishing the VI Price Class in the Item Master within MCS, assigning the appropriate price/cost for items within this category.

**Example:** Factory A (an Electronics Program factory) manufactures cable assemblies and transfers them to Factory B (a Graphics & Services Distribution Center) in support of a Direct Vendor Delivery (DVD) agreement that the Electronics Program has with the Department of Defense.

When Factory A manufactures a cable assembly in support of this program, the Business Manager will establish a VI price class of \$100 (standard manufacturing cost) in the item master for this product.

Upon shipping the product to Factory B, Factory A records the transfer as a Transfer Sale using the established VI price class.

When Factory B ships the product to the customer, it records the transaction as a Sale - Other Government Agencies (account 5110), using the appropriate Electronics Program product code.

- The cost/price which one factory charges another for manufactured items transferred for resale **must not be greater than 95% of the contract price.**

7. **CONSUMABLE ITEMS.** Consumable items are items manufactured at an FPI factory and shipped to another FPI factory for consumption in that operation.

- These items are generally factory or office supplies and are not a part of inventory to be used in the manufacture of a product.
- When transferring a manufactured item for consumption by another factory, it is transferred at the approved manufacturing cost for that item.
- When this occurs, it will be necessary to first establish a VI Price Class at the appropriate price/cost for the item to be transferred.

8. **TRANSFER OF RAW MATERIALS.** Raw materials are items that FPI does not manufacture; they are purchased from vendors.

- When a factory transfers a raw material inventory item to another factory, that item is transferred at its book value.
- The receiving factory is to absorb all freight costs associated with the transfer and, if applicable, add them to the inventory item within the MCS Item Master.

Transfer of raw materials is to be classified as a Miscellaneous Sale - FPI (account 7112), and the cost associated with the transferred item to be classified as a Cost of Miscellaneous Sale - FPI (account 7122).

/s/

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